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June 14, 2007

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
9300 East Hampton Drive
Capitol Heights, MD 20743

RE: Section 272 Biennial Report for Verizon Communications Inc. EB Docket No. 03-200

Dear Ms. Dortch:

Pursuant to paragraph 31 (e) of the "General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, for the Period January 3, 2005 through January 2, 2007" in the above referenced matter, enclosed are 2 copies of Volumes 1, 2 and 3 of the Deloitte & Touche LLP Independent Accountants' Report on Applying Agreed-Upon Procedures, with the following appendices:

- Appendix A - Results of Agreed-Upon Procedures
- Appendix B - General Standard Procedures
- Appendix C - Comments from Verizon Communications Inc.

This document will also be filed electronically through the Federal Communications Commission's Electronic Comment Filing System.

Very truly yours,

Deloitte & Touche LLP

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Verizon Communications Inc.

Section 272 Biennial Agreed-Upon Procedures Report
For the Period January 3, 2005 to January 2, 2007

Volume 1

Deloitte.

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Pursuant to paragraph 31 (e) of the "General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, for the Period January 3, 2005 through January 2, 2007" in the above referenced matter, Deloitte & Touche LLP is filing our Independent Accountants' Report on Applying Agreed-Upon Procedures with the following appendices:

- Appendix A - Results of Agreed-Upon Procedures
- Appendix B - General Standard Procedures
- Appendix C - Comments from Verizon Communications Inc.

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Very truly yours,

Deloitte & Touche LLP

cc: Connecticut Department of Public Utility Control
D.C. Public Service Commission
Delaware Public Service Commission
Maine Public Utilities Commission
Maryland Public Service Commission
Massachusetts Dept. of Telecom and Energy
New Hampshire Public Utilities Commission
New Jersey Board of Public Utilities
New York Public Service Commission
Pennsylvania Public Utility Commission
Rhode Island Public Utilities Commission
Vermont Public Service Board
Virginia State Corporation Commission
West Virginia Public Service Commission
Verizon Communications Inc.

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(A) *Attachments A-3 and A-4 are included in Volumes 2 and 3, respectively*

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Management of
Verizon Communications Inc.
New York, NY

We have performed the procedures enumerated in Appendix B, which were agreed to by the management of Verizon Communications Inc. ("Verizon") and the Joint Federal/State Oversight Team (collectively, the "Specified Parties"), solely to assist these Specified Parties in evaluating Verizon's compliance with the requirements of section 272 of the Communications Act of 1934, as amended ("Section 272 Requirements") during the period from January 3, 2005 through January 2, 2007. Verizon management is responsible for Verizon's compliance with the Section 272 Requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix B either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results obtained are documented in Appendix A. These procedures and the results of performing such procedures are not intended to be an interpretation of any legal or regulatory rules, regulations, or requirements.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on Verizon's compliance with the Section 272 Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Specified Parties and is not intended to be and should not be used by anyone other than the Specified Parties.

Deloitte & Touche LLP

June 14, 2007

Appendix A enumerates the results of procedures performed in connection with the Bell Operating Companies ("Verizon BOC")[1] and Incumbent Local Exchange Carriers ("ILEC")[2] of Verizon Communications, Inc. (collectively referred to as the "Verizon BOC/ILEC" or the "Company" or "Management"), and the section 272 affiliates[3]. Appendix B enumerates the Agreed-Upon Procedures to be performed.

<u>OBJECTIVE I.</u> Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell operating company.

1. We inquired of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the Section 272 affiliates covered in this Biennial Audit, and whether there have been any legal and/or doing business as ("DBA") name changes since the last engagement period.

   Management indicated the following changes:

   - Verizon Global Solutions Inc./Verizon Select Services Inc. – Merger Certificate filed to reflect the merger of Verizon Global Solutions Inc. into Verizon Select Services Inc. – March 1, 2005. We obtained and inspected the Merger Certificate noting that the name of the surviving corporation of the merger was Verizon Select Services Inc.

   - CODETEL International Communications Inc. – Certificate of Incorporation amended to reflect name change to Verizon International Communications Services Inc. - August 2, 2006. We obtained and inspected the Certificate of Incorporation noting the amendment.

2. We obtained and inspected Verizon's corporate entities' organizational charts.

   We confirmed with legal representatives of the Verizon BOC/ILEC, section 272 affiliates, and Verizon Communications, the legal, reporting, and operational corporate structure of the section 272 affiliates. We obtained written confirmations from the legal representatives noting that:

   - VLD is owned by Verizon Communications Inc.

[1] For the purposes of this document, Bell Operating Companies refers to Verizon New York Inc.; Verizon New England Inc.; Verizon – Washington D.C., Inc.; Verizon – Maryland Inc.; Verizon – Virginia Inc.; Verizon – West Virginia Inc.; Verizon – New Jersey Inc.; Verizon – Pennsylvania Inc.; Verizon – Delaware LLC.

[2] For the purposes of this document, Incumbent Local Exchange Carrier refers to Verizon California Inc.; Verizon Florida LLC; Verizon Mid-States (Contel of the South Inc.); Verizon North Inc.; Verizon Northwest Inc.; Verizon South Inc.; Verizon Southwest (GTE Southwest Inc.); Verizon West Coast Inc.; Puerto Rico Telephone Company.

[3] For the purposes of this document, the section 272 affiliates are Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance) ("VLD"); NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) ("VES"); Verizon Global Networks, Inc. ("GNI"); MCI Communications Services, Inc. (d/b/a Verizon Business Services) ("VBS"); MCI International Services, Inc. ("MISI"); MCI International, Inc. ("MII"); MCI Network Services of Virginia, Inc.("MNSV"); MCImetro Access Transmission Services LLC (d/b/a Verizon Access Transmission Services) ("VATS"); MCImetro Access Transmission Services of Virginia, Inc. (d/b/a Verizon Access Transmission Services of Virginia) ("VATSV"); MCImetro Access Transmission Services of Massachusetts, Inc. (d/b/a Verizon Access Transmission Services of Massachusetts) ("VASTM"); Metropolitan Fiber Systems of New York, Inc. ("MFSNY"); Teleconnect Long Distance Services and Systems Co. ("TLDSS"); Skytel Corp.("SC"); TTI National Inc. ("TTIN"); Verizon Select Services Inc. (formerly GTE Communications Corp.) ("VSSI"); Verizon International Communications Services Inc. ("VICSI" (formerly Codetel International Communications Inc. ("CICI")).

- GNI is owned by Verizon Communications Inc.

- *VES is owned by Bell Atlantic Worldwide Services Group, Inc.*, which in turn is owned by NYNEX Corporation, which is owned by Verizon Communications Inc.

- VSSI is indirectly wholly owned by Verizon Communications Inc., through GTE Corporation, which is owned by Verizon Communications Inc., NYNEX Corporation and Bell Atlantic Global Wireless, Inc.

- VICSI (was CICI before August 2, 2006) is indirectly wholly owned by Verizon Communications Inc., through GTE Corporation, which is owned by Verizon Communications Inc., NYNEX Corporation and Bell Atlantic Global Wireless, Inc.

- VBS is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- MISI is owned by MCI International Inc. (and 2.6% by Verizon Business Network Services Inc.), which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- MII is owned by MCI Communications Corporation, which in turn is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- MNSV is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- VATS is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- VATSV is owned by MCImetro Access Transmission Services LLC, which in turn is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- VASTM is owned by Verizon Business Global LLC, which in turn is owned by Verizon Communications Inc.

- MFSNY is owned by MCImetro Access Transmission Services LLC, which in turn is owned by Verizon Business Network Services Inc., which in turn is owned by MCI Communications Corporation, which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- TLDSS is owned by Telecom*USA, Inc., which in turn is owned by Verizon Business Financial Management Corporation, which is owned by MCI Communications Corporation (and 8.17% by MCI International Telecommunications Corporation), which is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

- SC is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.
- TTIN is owned by Verizon Business Global LLC, which is owned by Verizon Communications Inc.

3. We inquired of management whether the Verizon BOC/ILECs perform any research and development ("R&D") activities on behalf of the section 272 affiliates during the period from January 3, 2005 to September 30, 2006 (the "Test Period").

   Management indicated the following:

   > *"The Verizon functional structure does not assign to the BOCs/ILECs any responsibility to perform R&D activities, either for themselves or for other entities. All work on behalf of the Verizon BOCs/ILECs related to technology evaluation, to include any activity that might be characterized as research and development, is centralized in the Verizon Technology Organization, which is not in the BOC/ILEC organizational structure. The Verizon Technology Organization evaluates technology (equipment and software) developed by the third party suppliers, determines network architecture, and tests equipment and software that will be deployed in the Verizon network."*

4. We obtained the balance sheet and detailed fixed asset listing as of September 30, 2006 for the following section 272 affiliates:

   - VLD
   - VES
   - GNI
   - VSSI (including Card, VSSI/GSI, GTELD and Strategic Markets)
   - VBS (including MCI Communication Services Inc., BLT Technologies Inc., and Digex Inc.)
   - MISI
   - MII
   - MNSV
   - VATS
   - VATSV
   - VATSM
   - MFSNY
   - TLDSS
   - SC
   - TTIN

   We compared the net fixed asset balances in the balance sheets to the NBV total listed in the detailed fixed asset listings, including capitalized software, and noted the following:

   - For VLD we noted in the balance sheet that there were two amounts, $1,635,482 from account 131025 and $51,986 from account 131061 that were not included in the fixed asset detail listing. We inquired of management and obtained a written response explaining the two accounts were construction-in-process accounts included in the balance sheet but not yet recorded in the asset management system.

- For GNI we noted there were thirteen accounts totaling an amount of $106,654,287, which were included in the balance sheet but not in the fixed asset detail listing. We inquired of management and obtained a written response explaining that the thirteen accounts were construction-in-process accounts not recorded into the asset management system. Additionally, differences were attributed to accumulated depreciation included in the balance sheet but not in the asset management system as well as Network Hardware and accumulated depreciation that was not included in the balance sheet but in the asset management system.

- For VSSI - Card we noted that the balance sheet had $1,178 more than the fixed asset listing. We inquired of management and management provided a reconciliation sheet explaining that the difference was attributed to Plant Under Construction included in the balance sheet but not yet recorded into the asset management system.

- For VSSI/GSI we noted that the balance sheet had $1,451 more than the fixed asset listing. We received a written response from management stating that the discrepancy could not be identified.

- For VSSI - Strategic Markets we noted that the balance sheet was $252,000 more than the fixed asset listing. We inquired of management and obtained a written response explaining that the discrepancy was attributed to Acquisition Clearing Accounts and Depreciation Expense for EDS/WYHR Wire Trans included in the balance sheet but not in the asset management system.

- For VBS - MCI Communication Services Inc. we noted that the balance sheet was $594,010,000 more than the fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to construction-in-process accounts that were included in the balance sheet but not yet recorded into the asset management system, a plant inventory amount included in the balance sheet but not yet recorded into the asset management system, and other adjusting entries not yet recorded into the asset management system.

- For VBS - Digex Inc. we noted that the balance sheet was $7,251,121 less than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to accumulated depreciation and various adjustments not yet recorded in the asset management system.

- For MII we noted that the balance sheet was $5,440,176 more than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining the difference was attributed to construction-in-process amount and adjusting entries that were included in the balance sheet but not yet recorded into the asset management system.

- For VATS we noted that the balance sheet was $63,837,333 more than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to a construction-in-process amount and adjusting entries that were included in the balance sheet but not yet recorded into the asset management system.

- For MFSNY we noted the balance sheet was $4,989 less than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to an adjustment included in the asset management system but not in the balance sheet.

- For SC we noted that the balance sheet was $1,609,042 more than the detailed fixed asset listing. We obtained a reconciliation sheet from management explaining that the difference was attributed to adjusting entries which were included in the balance sheet but not in the asset management system.

- For TTIN no fixed assets were listed on the balance sheet.

- For VSSI-GTELD, TLDSS, VATSM, VATSV, MNSV, MISI, VBS - BLT Technologies Inc., and VES we noted no differences.

We reviewed each section 272 affiliate's fixed asset detail (with the exception of TTIN which had no fixed assets listed on its balance sheet) to verify the detailed listings included a description and location of each item, date of purchase or acquisition, price paid and recorded, and from what BOC/ILEC or affiliate purchased or transferred (if purchased from a nonaffiliate, then indicate "Nonaffiliate"). There were 44,622 total instances in which information was missing from a section 272's detailed listing as follows:

- For GNI, 312 items with a total net book value of $147,919 did not have an asset description. Also, 1 item with a net book value of $275,948.78 did not have a location identifier.

- For VSSI - Strategic Markets, 1,729 items with a total net book value of $5,635,575 did not have a location identifier.

- For VSSI/GSI, 59 items with a total net book value of $686,805.40 did not have the purchasing affiliate.

- For VLD, 1 item with a net book value of $0 did not have an asset description.

- For VES, 2 items with a total net book value of $0 did not have the purchasing affiliate.

- For SC, 8 items with a total net book value of $3,692.40 did not have a location identifier.

- For VATS, 147 items with a total net book value of $65,224.96 did not have a location identifier.

- For MII, 159 items with a total net book value of $0 did not have a location identifier.

- For VBS - MCI Communication Services Inc., 697 items with a total net book value of negative $12,720,337.05 did not have a location identifier.

- For VBS - Digex Inc., 38,065 items with a total net book value of $19,602,921.64 did not have the "Date of Purchase" and 22 items with a total net book value of $67.52 did not have an asset description. In addition, 3,420 items with a total net book value of $1,429,684.04 did not have a location identifier.

- For VSSI - Card, VSSI - GTELD, TLDSS, VATSV, VATSM, MFSNY, MNSV, MISI, and VBS - BLT Technologies Inc. no information was missing.

We examined the fixed asset detail listings received and noted there were 11,033 transmission or switching facilities and 5,626 capitalized software items added since January 3, 2005 (for fMCI affiliates, since January 6, 2006).

We requested copies of titles and/or other documents, which reveal ownership, for a statistically valid sample of 95 items and noted the following:

- For 33 out of 95 items selected, we found no instances in which the provided documents list joint ownership with the BOC/ILEC.

- For 25 out of 95 items selected, items represented capitalized interest or capitalized labor.

- For 24 out of 95 items selected, items represented reclassifications to fixed assets from inventory.

- For 12 out of 95 items selected, items represented were cross year MCI assets created or capitalized prior to January 6, 2006 and reclassified in 2006.

- For 1 out of 95 items selected, no supporting documentation was provided as the Net Book Value was $0.

OBJECTIVE II. **Determine whether the separate affiliate required under section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company.**

1. We obtained the separate general ledgers maintained for VLD, VES, GNI, VSSI, VBS, VATS, VATSV, VATSM, MISI, MII, MNSV, MFSNY, TLDSS, SC, and TTIN as of the end of the Test Period.

   As prescribed by Objective I, Procedure 1, we noted VSSI was the only domestic affiliate which adopted changes to its Certificates/Articles of Incorporation since the last engagement period.

   We noted that VSSI maintains four general ledgers for various divisions (Card, Strategic Markets, GTELD, and VSSI/GSI). We noted that although the title on the general ledger of VSSI/GSI is not identical to that of the VSSI Certificate of Incorporation, a separate general ledger is maintained by the section 272 affiliate. The name difference was the result of the merger between GSI and VSSI in March of 2005.

   We reviewed the separate general ledgers of VLD, VES, GNI, VSSI, VBS, VATS, VATSV, VATSM, MISI, MII, MNSV, MFSNY, TLDSS, SC, and TTIN and did not identify special codes which link the above section 272 affiliates' general ledgers to the general ledgers of the Verizon BOC/ILECs.

2. We obtained the financial statements (balance sheet and income statement) as of the end of the Test Period for each of the following domestic section 272 affiliates:

   - VLD
   - VES
   - GNI
   - VSSI - separate balance sheet and income statement for accounting entities: Card, VSSI/GSI, GTELD, and Strategic Markets.
   - VBS - separate balance sheet and income statement for accounting entities: MCI Communications Services Inc., BLT Technologies Inc. and Digex Inc.
   - VATS
   - VATSV
   - VATSM
   - MISI
   - MII
   - MNSV
   - MFSNY
   - TLDSS
   - SC
   - TTIN

3. We obtained a list of lease agreements which were entered into or modified during the Test Period. We reviewed the list and identified no leases with an annual obligation of $500,000 or more.

OBJECTIVE III. Determine whether the separate affiliate required under section 272 of the Act has officers, directors, and employees that are separate from those of the Bell operating company.

1. We inquired of management and management indicated that each of the section 272 affiliates and each of the Verizon BOC/ILECs maintain separate boards of directors, separate officers and separate employees.

   We obtained a list and written confirmation from the Corporate Secretary's Office of names of directors and officers for the Verizon BOC/ILECs and the section 272 affiliates, including the dates of service for each Board member and officer for the engagement period. We compared the list of names of directors and officers of each Verizon BOC/LEC with the list of names of directors and officers of each section 272 affiliate. We noted there were no directors or officers who served simultaneously as a director and/or officer of any Verizon BOC/ILEC and any section 272 affiliate during the engagement period.

2. We obtained a list of names and social security numbers of all employees of the section 272 affiliates and of the Verizon BOC/ILECs for the engagement period. We compared all names and social security numbers of the employees on the section 272 affiliates' lists to the names and social security numbers of the employees on the Verizon BOC/ILEC's lists. We noted that there were no names appearing on both lists simultaneously.

<u>OBJECTIVE IV.</u> Determine that the separate affiliate required under section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company.

1. We requested from management a list and copies of each section 272 affiliates' debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services from the Test Period (January 3, 2005 through September 30, 2006 (fMCI section 272 affiliates from January 6, 2006 through September 30, 2006)). Major suppliers are those having $500,000 or more in annual sales as stated in the agreement.

   We inspected the copies of the section 272 affiliates' debt agreements/instruments and credit arrangements with lenders and major suppliers. No indication of guarantees of recourse to the Verizon BOC/ILEC's assets, either directly or indirectly through another affiliate were noted.

2. We obtained the list of lease agreements entered into or modified during the Test Period used in Objective II, Procedure 3. We did not identify any lease agreements in which the annual obligation amount was $500,000 or more.

3. We mailed out and requested positive confirmations for all of the 8 debt instruments, leases, and credit arrangements, that were entered into or modified during the Test Period, maintained by each section 272 affiliate in excess of $500,000 of annual obligations and for a judgmental sample of 10 debt instruments, leases and credit arrangements that are less than $500,000 in annual obligations to loan institutions, major suppliers and lessors to verify the lack of recourse to Verizon BOC/ILEC's assets.

   We sent confirmations confirming non-recourse for the 18 selected sample items. Responses were received for 9 of the 18 confirmations. All the positive confirmations returned from loan institutions, major suppliers and lessors attested to the lack of recourse to the Verizon BOC/ILEC's assets.

OBJECTIVE V. Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

OBJECTIVE VI. Determine whether or not the Bell operating company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

1. We requested, obtained and included in our working papers the procedures used by the Verizon BOC/ILECs to identify, track, respond, and take corrective action to competitor's complaints with respect to alleged violations of the section 272 requirements.

   We requested of management to provide (1) a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716 and any written complaints made to a state regulatory commission from competitors involving alleged noncompliance with section 272 for the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period and (2) a list of outstanding complaints from the prior engagement period.

   Management indicated the following:

   > *"There were no written state complaints, filed or open, made to a state regulatory commission from competitors alleging noncompliance with Section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards during the period from January 2, 2005 through January 2, 2007.*
   >
   > *There have been no FCC formal and informal complaints from competitors alleging noncompliance with Section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period.*
   >
   > *In addition, there were no complaints open as of January 2, 2005 that alleging noncompliance with Section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards."*

2. We obtained from the Verizon BOC/ILECs and each section 272 affiliate current written procedures for transactions with affiliates. We compared these procedures with the FCC rules and regulations indicated as Objective V & VI "standards" in the General Standards procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as amended. We noted the Company's written procedures included the FCC Rules and Regulations indicated as standards above and noted no differences.

3. We inquired how the Verizon BOC/ILEC and each section 272 affiliate disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transaction rules. We noted the type and frequency of training, literature distributed, company's policy, and nature of the supervision received by employees responsible for affiliate transactions as follows:

"Verizon has a comprehensive program for affiliate transaction and Section 272 training and communication. The Affiliate Transaction Compliance Office (AICO) regularly conducts training sessions by conference call or face-to-face sessions targeted toward Section 272 employees and others interfacing with the Section 272 affiliate. AICO maintains up-to-date training materials that cover an overview of the Telecommunications Act of 1996 and related FCC rules; identification of the Section 272 affiliates; the consequences of non-compliance with the rules; the structural, accounting and nondiscriminatory compliance requirements; information sharing; and joint marketing. Training efforts begun shortly after the passage of the Telecommunications Act on Section 272 and have continued through 2006. During 2005 and 2006, at least 3,000 employees attended training sessions sponsored by the affiliate organization.

The Verizon BOC/ILEC and each section 272 affiliate provides training and disseminates the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transaction rules as follows:

VSSI, GNI & MCI –

- *Affiliate Transaction Compliance Office provides training as needed.*
- *An Affiliate Compliance training session was taped and is available via the web-based "Global Learning and Development" Training site.*
- *Information session on 272 requirements and information sharing were conducted with Senior Vice President Verizon Business direct reports down to director level.*
- *Interviews were conducted individually with Verizon Business's President Operations and Technology direct reports to insure each group had 272 controls in place, and was aware of existing posted contracts between GNI, VSSI, and/or MCI and a Verizon BOC/ILEC.*
- *Verizon Business Human Resources includes information on how to retrieve the President Operations and Technology memo in new hire training packet and in the main new hire presentation for Operation and Technology employees, which highlight the 272 rules.*

VLD - Affiliate Transaction Compliance Office provides training as needed.

VES - Affiliate Transaction Compliance Office provides training as needed.

VICSI (CICI) – Each new employee is scheduled for Verizon Section 272 Compliance training as a requirement of the VICSI's new employee orientation process. A copy of the Verizon Compliance Training package is distributed to individuals in the orientation package. All VICSI employees are scheduled to attend Verizon Section 272 Compliance training annually.

BOC/ILECs - Affiliate Transaction Compliance Office provides training as needed.

- *In addition, PRT required that all Directors and Managers attend a special compulsory training prepared and given by the Regulatory Accounting Department on July 13, July 20, August 3, and September 30, 2005.*

Employees are sent global e-mails which remind them of their responsibility to follow the regulations summarized in the Affiliate Transaction Policy. In addition, target letters with similar reminders are sent to specific organizations. As examples, the Senior VP-

Regulatory Compliance and Senior VP and Deputy General Counsel issued a joint letter to the "Directors and above" managers on June 24, 2005 emphasizing the importance of complying with Section 272 obligations with MCI companies that originate interLATA telecom services in former Bell Atlantic states became Section 272 "long distance affiliates of Verizon telephone companies for regulatory accounting purposes following Verizon's purchase of more than 13 percent of the MCI stock on May 17, 2005. The Senior VP-Regulatory Compliance and Senior VP and Deputy General Counsel issued a joint letter to the "Directors and Above" managers on February 1, 2006 with an addition letter on February 2, 2006 to the "Verizon Business Directors and above" managers, emphasizing the importance of complying with Section 272 obligations.

In these communications the senior managers are asked to assure their organizations are aware of, and follow, the rules. Summaries of the Section 272 rules or links to the internal corporate affiliate web sites were included in the correspondence. The VP – General Counsel, Senior VP Verizon, and Senior VP and Deputy General Counsel issued a letter to the "Directors and above" managers in Verizon Corporate Staff, Verizon Partner Solutions and Verizon Business on October 19, 2006, emphasizing the importance of complying with Section 272 obligations.

The importance of adhering to all affiliate regulations, including Section 272, was emphasized through corporate-wide emails sent to all employees on July 27, 2005. In order to further explain the rules, a website address was provided to locate Verizon's Affiliate Transaction Policy.

The Affiliate Transactions Policy is also located on the Company's intranet website. The Affiliate Interest Compliance Office Hotline is available to answer questions employees may have on the subject.

Also, each business unit is assigned a specific Compliance Officer who is required to answer any questions employees may have on the subject. In addition, each business unit has an attorney who can be reached to answer questions relative to transactions with Section 272 affiliates."

We also obtained and examined a copy of an "Affiliate Interest Training Presentation" given to employees, which provides guidance on matters such as affiliate regulations, legal affiliates, Verizon business segments, and key affiliate rules.

We conducted interviews with employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier. The employees interviewed had the following job titles: Senior Staff Consultant – Marketing, Senior Staff Consultant – Account Management, Manager – Accounting, Manager – Real Estate Portfolio Management, and Specialist – Sales Support. Each of these individuals also completed a questionnaire surrounding their awareness of the FCC rules and regulations. Through the employees interviewed and questionnaires completed by employees, we noted that the employees demonstrated knowledge of the FCC rules and regulations.

4. a). We obtained from management a listing of all written agreements for services and for InterLATA and exchange access facilities between the Verizon BOC/ILEC and each section 272 affiliate which were in effect from January 3, 2005 through September 30, 2006 (for fMCI

section 272 affiliates, January 6, 2006 through September 20, 2006). There were 752 agreements and amendments examined. Of those, there were 637 still in effect as of the end of the Test Period. Attachment A-1 lists the 115 agreements which terminated during the Test Period and the termination date, including 37 agreements which terminated prematurely (prior to the contract termination date) and the reasons for termination provided by management.

We inquired of management and management provided instances where services were provided between the Verizon BOC/ILEC and a section 272 affiliate at some point during the engagement period without a written agreement between the parties. The following represents management's response:

> *"The following services were provided during the engagement before written agreements were executed and have not been included in prior audit reports:*
>
> *1. Inside Wire services associated with special access to VSSI, VLD and MCI. In the past, Verizon affiliates ordered special access services from the tariff with the inside wire options. Inside Wire is not part of the special access tariff, so an agreement was executed on June 16, 2006.*
>
> *2. Amendment 1 of the Master Service Agreement provided IP ports to VGNI in near out of franchise situations. Services were provided beginning July 25, 2005. The tariff was effective November 11, 2005. The contract covering the period between July 25, 2005 and November 10, 2005 was executed May 4, 2006.*
>
> *3. Amendment 4 to the Master Service Agreement provides cabinet space and power to the ILEC by VGNI and MCI in a data center. Service was provided March 1, 2005 and the contract was executed December 26, 2006.*
>
> *4. Call Management Signaling Service (CMSS). VLD, VES and VSSI purchased CMSS, a tariffed wholesale access service, from the LECs beginning in September 2004. A Section 272 contract was in place covering this tariff. Verizon subsequently discovered that the tariffed service was not provisioned by the LEC in the manner described in the tariff. The LEC modified its corresponding Network Disclosure and filed it with the FCC March 2, 2007. The updated network disclosure became effective on May 11, 2007 and tariffs were filed on May 31, 2007 and are to become effective June 15, 2007.*
>
> *5. Pole Attachments and Conduit*
>
> - *Pole Attachments and conduit occupancy in Virginia was provided to VGNI. Services were provided starting on February 7, 2005 and a contract was executed March 1, 2005.*
>
> - *Conduit Letter of Occupancy was provided to MCI for a total of 41' of 1" conduit. Service provided May 30, 2006 and a contract was executed July 26, 2006.*
>
> *6. Miscellaneous Administrative corrections provided at some point during the engagement period without a written agreement:*
>
> - *Agreement for Use of Riser Cable Agreement was for services provided to Verizon New York by MCI (one time access). The service was temporarily (erroneously)*

provided between March 28, 2006 and April 21, 2006 and the contract was executed September 25, 2006 for this three week period.

- *Amendment 5 to the National Directory Assistance Agreement covers certain end users listings provided to VLD. Service was provided beginning March 24, 2005 and there was a one day delay before the contract was executed on March 25, 2005.*
- *Amendment 19 to the General Service Agreement and Amendment 11 to the Service Agreement covers use by VLD and VES of several ILEC employees providing service company-type staff in support of the long distance Voice Wing product. Service was provided beginning January 1, 2006 and the contract was executed August 1, 2006.*
- *Memorandum of Understanding for Tariffed Telephone Service provided to Verizon International Communications Services by Puerto Rico Telephone Company. Service provided July 18, 2005 pursuant to tariff and a contract was executed on October 27, 2006.*
- *Amendment 6 to VSSI Telecommunications Services Agreement provides to the ILEC additional locations to the OC transport service route for fios video transport in a previously executed contract. This contract was executed on February 5, 2007.*
- *Amendment 3 to the Operator Service Agreement is an administrative correction which adds VES as a party to the Directory Assistance and Call Recording and Rating Services. Services already provided under a written contract to its sister company, VLD.*
- *Additional office space agreements were executed to add the following locations:*
  (a) ILEC employees in VSSI space: Carrolton, TX, Earth City, MO, Houston, TX, Irvine, CA, Portland, OR
  (b) VSSI employees in ILEC space: Tampa, FL, Thousand Oaks, CA.
  (c) GNI employees in ILEC space: Bloomington IL.

In addition, the items below were disclosed in the prior audit and the remedial activity spanned into the 2005-2006 audit period.

7. Amendment 16 to General Service Agreement for long distance settlement services."

b). We obtained listings of all written agreements, amendments, and addenda for services and for interLATA and exchange access facilities between the Verizon BOC/ILEC and each section 272 affiliate that became effective during the Test Period. Forty-three statistically valid random selections were made from a population of 212 total written agreements, amendment, and addenda. Copies of each selected agreement, amendment, or addenda were obtained and included in the workpapers.

5. Using the sample of agreements, amendments, and addenda obtained in Procedure 4b, we viewed each company's website on the internet and compared prices and terms and conditions of services and assets shown on this site to the agreements provided in 4b above.

a). For each individual web posting comparison for accuracy, we completed "Form 1 – Assessing Individual Web Postings" (columns D and E) as provided in the General Standard Procedures. We noted two instances where an agreement contains an item that does not agree with the corresponding item on the internet. Taking those instances, or lack thereof, where an agreement contains an item that does not agree with the corresponding item on the internet, we developed the error rate as a percentage by utilizing Form 1 (columns D and E) and summarized the results on "Form 2 – Summary of Web Posting Completeness and Accuracy Results" (columns B and C) at Attachment A-2 to this report.

b). For each individual web posting comparison for completeness, we completed "Form 1 – Assessing Individual Web Postings" (columns G and H) as provided in the General Standard Procedures. Taking those instances where the internet did not contain sufficient details, we were to develop the error rate as a percentage by utilizing Form 1 (columns G and H) and summarized the results on "Form 2 – Summary of Web Posting Completeness and Accuracy Results" (columns D and E) at Attachment A-2 to this report. We noted no instances where the internet did not contain sufficient details.

A copy for each of the web postings is included in the workpapers.

c). Using the same sample as above, we obtained a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. We selected a judgmental sample of five locations which was agreed to by the Joint Oversight Team. These locations were Verizon Maryland, Contel of the South, Inc. d/b/a Verizon-Mid States, Verizon New York, Verizon-Pennsylvania, and Verizon-Washington, D.C.

We inquired of management and management indicated all agreements, amendments and certification statements are electronically available at any public inspection site. We visited one location, 600 Hidden Ridge, Irving, Texas, and accessed the shared drive and located forty-two out of the forty-three agreements sampled. One agreement could not be located. For the remaining locations, we visited and confirmed that the Company's electronic access was operational and available to interested parties and the certification statements relating to the sampled agreements/amendments were available for public inspection.

d). For each of the 43 sampled agreements, we documented in the workpapers the dates when the agreements were signed and/or when the services were first rendered (whichever took place first) and the dates of posting on the internet. Of the 43 sampled items, 5 instances were noted where posting took place after ten days of signing of agreement or provision of service (whichever took place first). The following table listed these five instances and management's responses:

Section 272 Affiliate	Name of Agreement	Issue Description	Verizon Management Response
MCI	Amendment No. 4 to the Interconnection, Resale and Unbundling Agreement (MCImetro Access Transmission Services LLC, as successor in interest to Metropolitan Fiber Systems of Florida, Inc.)	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 2/1/2006 Effective Date = 12/12/2005 Signing Date = 1/25/2006 Transaction was posted 51 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4. The agreement was posted within the 10 days once the agreement was executed.
MCI	Agreement for Use of Riser Cable	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 10/3/2006 Effective Date = 3/24/2006 Signing Date = N/a (No Date Noted) Transaction was posted 193 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4. The agreement was posted within the 10 days once the agreement was executed (9/25/06).
VGNI	License Agreement for Pole Attachments and/or conduit occupancy in VA	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 9/16/2005 Effective Date = 3/8/2005 Signing Date = 3/8/2005 Transaction was posted 192 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4.
VSSI	Revocable License Agreement (Everett, WA) Amendment 1	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 6/27/2006 Effective Date = 1/1/2004 Signing Date = 6/26/2006 Transaction was posted 908 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4. The agreement was posted within the 10 days once the agreement was executed.
VSSI	Revocable License Agreement (Houston, TX)	The transaction was not posted within 10 days of the signing of the agreement or the Effective Date. Post Date = 12/6/2005 Effective Date = 11/15/2004 Signing Date = 11/30/2005 Transaction was posted 386 days after the Effective Date.	Provided in Verizon's response to "services without a contract" included in the audit under Objective V/VI procedure 4. The agreement was posted within the 10 days once the agreement was executed.

Management indicated the execution date is the date when the agreement was executed by all the parties to the agreement, or if signatures were not dated, the date written into the contract by the ILEC Account Executive ("AE") reflecting the date that the last signature was secured. We verified four out of the five agreements/amendments were posted within ten days once executed. The remaining agreement was not posted within ten days of either the effective date or the execution date.

We requested, obtained from management, and documented in the workpapers the procedures that of all the related 272 affiliates had in place for posting transactions on a timely basis.

6. We obtained a listing and amounts of all nontariffed services rendered by month by the Verizon BOC/ILECs to each section 272 affiliate during the Test Period. From the listing, we determined which of these services were made available to both the section 272 affiliates and to third parties.

a). From the services not made available to third parties:

We identified the 9 services/bill detail lines with the highest billing volume in dollars over the Period (total Verizon including all BOC/ILECs and all states) that were billed to the section 272 affiliates (total Verizon including all section 272 affiliates). In addition, we randomly selected one service from among the remaining services for a total of 10 services to be tested. The services selected were:

- Installation & Maintenance
- Marketing and Selling - ESG
- Marketing and Sales - Consumer & Sm. Business
- Care Repair Processing
- Post Sale Fulfillment
- Network Mgmt Services
- Slamming Investigation
- Call & Trouble Ticket Mgmt
- Offline Center Services

We randomly selected three individual non-consecutive months (February 2005, October 2005 and July 2006). For each month selected, we obtained the section 272 affiliate billing records for all states, all BOC/ILECs, for the 10 services selected above. For each of the 10 services selected, we randomly selected 10 billing transactions from three months of billing records. For each service in which more than 10 billing transactions were available from the three months of billing records, we randomly selected 10 billing transactions. For services in which less than 10 billing transactions were available from the three months, we selected the entire population of billing transactions. A total of 65 billing transactions were selected.

For each billing transaction selected, we requested the Fully Distributed Cost ("FDC") and the Fair Market Value ("FMV") unit charges for the services, copies of the Verizon BOC/ILEC invoice, and journal entries for the Verizon BOC/ILEC. We compared unit charges to FDC or FMV as appropriate. We noted the following:

- For 50 of the 65 transactions, we compared the unit charges in the invoice to FDC and FMV and noted the unit charges were priced at the higher of either the FDC or FMV.

- For 15 of the 65 transactions, the unit charges were priced at FDC. FMV was not developed for each of the transactions, as the annual value of service provided was less than $500,000.
- No instances were noted where differences existed between the amount recorded in the Verizon BOC/ILEC financial records, the amount billed by the BOC/ILEC, and the amount charged in accordance with the affiliate transaction rules.
- No instances were noted where differences existed in the application of billing rates, including all applicable discounts, surcharges, late fees, etc.
- No instances were noted where differences existed between the amount billed and recorded by the BOC/ILEC and the payment amount received from the section 272 affiliate. Copies of relevant BOC/ILEC financial records are maintained in the workpapers.
- No instances were noted where differences existed between the amount recorded on the section 272 affiliate's books agreed to the amount paid by the section 272 affiliate.

b). From the services made available to both the section 272 affiliates and to third parties:

We identified the 9 services/bill detail lines with the highest billing volume in dollars over the Period (total Verizon including all BOC/ILECs and all states) that were billed to the section 272 affiliates (total Verizon including all section 272 affiliates). In addition, we randomly selected one service from among the remaining services for a total of 10 services to be tested. The services selected were:

- Billing & Collection
- One Coin Plus Sent Paid
- Marketing & Sales - Consumer & Small Business
- Live & Automated Operator Services
- Dial Around
- National Directory Assistance
- National Operator Assistance
- Call Center - M&A
- Real Estate
- Prepaid Calling Card

We randomly selected three individual non-consecutive months (September 2005, December 2005 and July 2006). For each month selected, we obtained the section 272 affiliate billing records for all states, all BOC/ILECs, for the 10 services selected above. For each of the 10 services selected, we randomly selected 10 billing transactions from three months of billing records. For each service in which more than 10 billing transactions were available from the three months of billing records, we randomly selected 10 billing transactions. For services in which less than 10 billing transactions were available from the three months, we selected the entire population of billing transactions. A total of 76 billing transactions were selected.

For each billing transaction selected, we requested the Fully Distributed Cost ("FDC") and the Fair Market Value ("FMV") unit charges for the services, copies of the Verizon BOC/ILEC invoice, and journal entries for the Verizon BOC/ILEC. We compared unit charges to FDC or FMV as appropriate. We noted the following:

- For 31 of the 76 transactions, we compared the unit charges in the invoice to FDC and FMV and noted the unit charges were priced at the higher of either the FDC or FMV.

- For 43 of the 76 transactions, we noted that sales were greater than 25% of the total quantity of such service sold and accordingly Prevailing Market Price ("PMP") was applied.

- For 1 of the 76 transactions, we noted that FDC, FMV, nor PMP was applied, as the service selected was included as one of several items included one invoice selected; however, the specific service was not purchased.

- For 1 of the 76 transactions, we noted only the FDC was provided as management was not able to locate the FMV rates.

We inquired and obtained from management the general ledger for each BOC/ILEC containing journal entries detailing the amount recorded by the BOC/ILEC. We obtained invoices from management detailing the amount billed to the section 272 affiliate. We also obtained screenshots of payment information received by the BOC/ILECs which included the check number and check amount for each section 272 affiliate. We compared the amount recorded in the financial records by the BOC/ILEC and the payment by the section 272 affiliate recorded by the BOC/ILEC. We noted the following:

- For 75 of the 76 transactions, the amount recorded in the financial records by the BOC/ILEC equaled the payment by the section 272 affiliate as recorded by the BOC/ILEC.

- For 1 of the 76 transactions, the amount recorded in the financial records by the BOC/ILEC was $0.00, accordingly no payment was recorded.

We inspected each of the 76 transactions for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. and noted the following:

- For 75 of the 76 transactions in which FDC, FMV, or PMP was applied, the rates developed were accurately applied to each invoice transaction.

- For 1 of the 76 transactions, the review for proper and accurate application of rates was not applicable as the service was not purchased

We obtained from management the payment information for the section 272 affiliates. We obtained and inspected screenshots for each section 272 affiliate which included the check number and check amount. We also obtained screenshots of each section 272 affiliate's journal template, detailing their account payable system. We compared the payment information and the amount recorded on the section 272 affiliate's books and noted the following:

- For 74 of the 76 transactions, the amount recorded on the section 272 affiliate's books agreed to the amount paid by the section 272 affiliate.

- For 2 of the 76 transactions, we did not obtain the amount recorded and paid by the section 272 affiliate as the payment information could not be located.

7. We obtained a listing of all services rendered by each section 272 affiliate to each Verizon BOC/ILEC during the Test Period. The following services were included:

- VSSI – CPE
- VSSI – Long Distance
- VGNI – ATM PVC
- MCI – Data and Long Distance Voice
- VLD – AMS

a). We randomly selected three individual non-consecutive months during the Test Period (May 2005, July 2005 and January 2006) and obtained the billing records for all services identified above that were billed by each section 272 affiliate to the Verizon BOC/ILEC during the months selected. The listings were for all BOC/ILECs, all states, and reflected billings from all section 272 affiliates.

We calculated the percentage of each service as a percentage of total billing dollars and identified two services, VSSI - Long Distance and MCI - Data and Long Distance Voice, comprised 83% of the total billing dollars.

From the population of invoices for the three selected months, we selected a random sample of 50 invoices from the section 272 affiliate to the BOC/ILECs. From each these 50 invoices, we selected 2 billing transactions with different rates. Amongst the 100 billing transactions, 22 transactions (with a total dollar amount of $328,195.79) were billing transactions for MCI's Data and Long Distance Voice service and 63 transactions (with a total dollar amount of $27,962.87) were billing transactions for VSSI Long Distance service. The total dollar amount of the transactions for these two services represented 87% of the total dollar amount of the 100 transactions. After selecting the 100 billing transactions, we consulted the JOT and obtained approval for the sample.

b). For each of the 100 billing transactions selected in step 7a) above, we requested from management the unit charges as well as the PMP, FDC, or FMV, as appropriate. Management responded by stating each of the 100 billing transactions was priced at PMP in accordance with affiliate transaction rules.

Management provided copies of invoices (including the unit charges) for 99 of the transactions sampled. One of the transactions could not be located in the billing system, therefore no invoice could be provided. Based on the documentation provided for the sample transactions (invoices), we noted no chain transactions.

We obtained from management the supporting documents showing the amount paid and the amount recorded by the BOC/ILEC for the 100 sampled transactions (included in the 50 invoices). For each of the selections, we compared the amount paid by the BOC/ILEC and the amount recorded on the BOC/ILEC's books of account and noted the following:

- 39 invoices (86 transactions) we noted no differences.